

Message Text

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ACTION EUR-12

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SUBJECT: ENERGY: SYNCURDE PROJECT

REF: OTTAWA 425

SINCE THE GOC'S FEBRUARY 4 ANNOUNCEMENT (REFTEL) OF GOVERNMENT PARTICIPATION IN THE SYNCRUDE PROJECT, THE FOLLOWING ADDITIONAL INFORMATION (IN SUMMARY FORM) HAS BEEN OBTAINED ON THE PROJECT FROM A VARIETY OF SOURCES, INCLUDING STATEMENTS MADE IN THE HOUSE OF COMMONS:

1. THE BREAKDOWN OF INVESTMENTS IN THE PROJECT UNDER PRESENT COST PROJECTIONS FOR THE MAIN EXTRACTION PLANT OF \$2 BILLION:

(A) FEDERAL GOVERNMENT: 15 PERCENT (\$300 MILLION)

(B) ONTARIO: 5 PERCENT (\$100 MILLION)

(C) ALBERTA: 10 PERCENT (\$200 MILLION)

(D) PRIVATE COMPANIES: 70 PERCENT (\$1,400 MILLION). OF THIS \$1,400 MILLION, \$200 MILLION IS LOANS FROM

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ALBERTA TO GULF AND CITIES SERVICE. THE

PRESENT PERCENTAGE BREAKDOWN OF SHARES IN THE
PROJECT OF THE THREE COMPANIES IS ACCORDINGLY
ADJUSTED AS FOLLOWS:

- (1) IMPERIAL: 31.25 PERCENT
- (2) GULF: 22 PERCENT
- (3) CITIES SERVICE 16.75 PERCENT

2. IN ADDITION TO ITS PRESENT 10 PERCENT EQUITY SHARE,
ALBERTA IN THE FUTURE REPORTEDLY HAS THE RIGHT TO
CONVERT ITS \$200 MILLION LOAN TO SHARE PURCHASE AND
CONTINUES TO MAINTAIN ITS 1973 OPTION TO PURCHASE AN
ADDITIONAL 20 PERCENT SHARE IN THE PROJECT. THUS, IN THEORY,
ALBERTA IN THE LONG RUN COULD END UP WITH NEARLY 40 PERCENT
EQUITY IN THE SYNCRUDE PROJECT, WITH CORRESPONDING
DECREASES IN THE SHARE PERCENTAGES HELD BY THE COMPANIES,
AS WELL AS ONTARIO AND THE FEDERAL GOVERNMENT. (THIS
FINANCIAL STAKE BY ALBERTA IS IN ADDITION TO ALBERTA'S
EARLIER AND NOW RESTATED COMMITMENT TO FINANCE AND OWN
OUTRIGHT THE \$600 MILLION SYNCRUDE-ASSOCIATED POWER
PLANT AND PIPELINE.)

3. REPORTS ARE ALREADY CIRCULATING IN THE INDUSTRY
AND GOVERNMENT CIRCLES THAT THE ULTIMATE COST OF THE
SYNCRUDE PLANT WILL RISE TO \$2.4 TO \$2.6 BILLION. IN
THIS CONNECTION, CONSIDERABLE STIR WAS CREATED IN
COMMONS ON FEBRUARY 5 WHEN TREASURY BOARD PRESIDENT
CHRETIEN ACKNOWLEDGED THAT GOC INVOLVEMENT IN PROJECT
WAS BASED ON 15 PERCENT INTEREST AND NOT REPEAT NOT STRICTLY
LIMITED TO ABSOLUTE AMOUNT OF \$300 MILLION. CHRETIEN
REPORTEDLY TOLD PRESS LATER THAT GOC IS PREPARED TO
EXCEED THE \$300 MILLION SLIGHTLY, BUT THAT ANY MAJOR
INCREASES (SUCH AS 5 TO 10 PERCENT) WOULD CAUSE SOME
PARTNERS "A HELL OF A PROBLEM AND WE WILL BE AMONG
THEM".

4. ON QUESTION OF WHETHER "SPECIAL" CONCESSIONS TO
SYNCRUDE (GOVERNMENT DIRECT FINANCIAL AID, PRICING
OF OIL AT "INTERNATIONALLY-RELATED" LEVELS, EXEMPTION
FROM NOVEMBER BUDGET TAX MEASURES, ETC.) MIGHT BE
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EXTENDED TO OTHER COMPANIES WITH SIMILAR PROJECTS,
PM TRUDEAU STATED THAT NO ONE ELSE HAS ASKED FOR
RELIEF, BUT THAT "WE WOULD EXAMINE ANY FURTHER CASES
ON THEIR OWN MERITS", ALTHOUGH HE INSISTED MATTER WAS
"PURELY HYPOTHETICAL" AT THIS TIME. THIS RESPONSE
LED TO QUESTION IN COMMONS WHETHER GOC WAS COMMITTED
TO THE NATIONAL ENERGY BOARD FORECAST OF THE NEED
FOR A TAR SANDS PLANT EVERY TWO YEARS AS A MAJOR

PART OF THE GOAL OF NERGY SELF-SUFFICIENCY. TRUDEAU RESPONDED THAT THIS IS "MERELY PREDICTION BY THE BOARD. GOVERNMENT POLICY HAS NOT BEEN STATED TO INDICATE ANY PARTICULAR RHYTHM OF CONSTRUCTION... THERE HAS NOT BEEN A POLICY ANNOUNCEMENT OF ANY NUMBER OR TIMING OF FUTURE PLANTS THAT WOULD OR MIGHT BE ESTABLISHED."

5. IN REPLY TO CLOSE COMMONS QUESTIONING ON FEBRUARY 5 REGARDING THE NATURE OF THE AGREEMENT BETWEEN THE GOC AND THE SYNCRUDE CONSORTIUM, TRUDEAU INDICATED THAT THERE IS NO REPEAT NO FORMAL AGREEMENT YET, BUT SIMPLY AND EXCHANGE OF INTENTIONS. SPEAKING IN PART TO THIS QUESTION ON FEBRUARY 6, ENERGY MINISTER MACDONALD STATED THAT IN GENERAL TERMS THE "NEW" SYNCRUDE PARTNERS WILL SUCCEED TO THE POSITION ATLANTIC-RICHFIELD HAD IN THE PROJECT, BUT THAT A NEW LEGAL AGREEMENT WILL BE REQUIRED TO GIVE THE GOC (AND THE OTHER NEW PARTNERS) ACCESS TO THE NEW TECHNOLOGY SYNCRUDE MAY DEVELOP "FOR POSSIBLE APPLICATION TO FUTURE SYNTHETIC OIL POSSIBILITIES WHICH MIGHT COME TO THE GOVERNMENT OF CANADA". MACDONALD WARNED THAT THE ACTUAL DRAFTING OF THE AGREEMENT WITH SYNCRUDE "WILL TAKE QUITE SOME TIME".

YM MINISTER MACDONALD ALSO IN THE COMMONS ON FEBRUARY 6 DEFINED THE COMMITMENT TO SYNCRUDE TO ALLOW THE OIL TO BE SOLD AT "INTERNATIONALLY-RELATED OR ORIENTED" PRICES AS THE MONTREAL PRICE, PLUS A CHARGE FOR TRANSPORTATION AND QUALITY DIFFERENCES. HE ALSO ACKNOWLEDGED THAT ALBERTA LAW REQUIRES THAT OIL BE SOLD IN THE FIRST INSTANCE TO THE ALBERTA MARKETING COMMISSION.

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UM REACTION IN OTTAWA TO GOC PARTICIPATION IN SYNCRUDE PROJECT HAS BEEN ALONG GENERALLY EXPECTED LINES: SPOKESMAN FOR THE OPPOSITION PARTIES HAVE CALLED THE DEAL "THE GREATEST SELLOUT OF OUR NATURAL RESOURCES IN THE HISTORY OF CANADA" (NDP); "AN EXTREMELY MARGINAL AND DANGEROUS" GAMBLE THAT A DECLINE IN WORLD PRICES WILL NOT RENDER THE SCHEME UNECONOMIC (PC); AND MULTI-NATIONAL OIL COMPANY BLACKMAIL OF THE GOVERNMENT (SOCIAL CREDIT). WHILE THE OIL INDUSTRY HAS EXPRESSED "DELIGHT" THAT THE PROJECT HAS BEEN "RESCUED", THOSE FIRMS WITH POTENTIAL OIL SANDS PROJECTS OF THEIR OWN HAVE INDICATED THAT THEY MUST CONTINUE TO ASSESS THEIR PLANS INDEPENDENTLY OF THE SYNCRUDE DEVELOPMENT.
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